

## Follow Up with EEDC

### (Tourism and Convention)

#### Recommendation

That the terms of the quarter 4 2020 grant funding agreement between the City of Edmonton and Edmonton Economic Development Corporation, for an amount not to exceed \$847,478, as outlined in Attachment 3 of the November 30, 2020, Citizen Services report CR\_8299, be approved, and that the agreement be in form and content acceptable to the City Manager.

#### Previous Council/Committee Action

At the May 11, 2020, City Council meeting, the following motion was passed:

That Administration work with Edmonton Economic Development Corporation and other stakeholders to develop a recommended mandate, including the appropriate funding model from City of Edmonton, to provide the necessary growth for the tourism and convention/trade sectors, in line with ConnectEdmonton and the City's strategic priorities. This work should include examining the feasibility and advantages of integrating K-Days and Farmfair.

#### Executive Summary

Since May 2020, the senior leadership team of the Edmonton Economic Development Corporation has worked to redefine its mission and mandate in accordance with City Council's direction. The reorganized Edmonton Economic Development Corporation is rebranding itself as Explore Edmonton and will focus on the promotion of the visitor economy and venue management (the Edmonton Convention Centre and the Edmonton EXPO Centre).

The COVID-19 pandemic has necessitated the closure of the Edmonton Convention Centre and the Edmonton EXPO Centre to events and has caused a significant drop in revenue from Edmonton Destination Marketing Hotels, the voluntary destination marketing fee. Given this drop in revenue, Explore Edmonton is requesting \$22 million in 2021, \$18 million in 2022 and \$17 million in 2023 to continue to maintain its facilities and promote Edmonton's visitor economy. This projection assumes that pandemic restrictions will begin to ease in 2021 and that activities on which Explore Edmonton's success depends (facility bookings as well as regional, national and international travel) will return to normal by 2024. In the long term, Explore Edmonton's funding

model would include a request for operating funds from the City of Edmonton in the amount of approximately \$11.7 million annually representing approximately 30 to 40 percent of the organization's total budget. This assumes no new revenue tools (such as a mandatory destination marketing fee).

Since May, Explore Edmonton and Administration have been in regular talks with Northlands about the feasibility of integrating K-Days and Farmfair International. There is consensus among the parties that Explore Edmonton could host these events using its existing corporate services and facilities to achieve certain efficiencies. This would be contingent on Explore Edmonton and Northlands reaching an agreement on how to legally structure the transition of these two events.

With the change in Explore Edmonton's mandate, its support for Startup Edmonton and TEC Edmonton was expected to end earlier in 2020; however, as the innovation entity which would take over this support is still in its early days as a corporation, Explore Edmonton continues to provide support for Start Up Edmonton and the TEC Edmonton. Given the current situation, this report recommends entering a Quarter 4 grant agreement to fund Explore Edmonton expenses of \$847,478 related to Startup Edmonton and TEC Edmonton on a one-time basis.

### Report

Explore Edmonton is a corporation of the City of Edmonton, governed by a board of directors. Under its revised mandate it will increase the impact of the visitor-based economy in alignment with Edmonton's economic growth strategy and Vision 2050, showcasing Edmonton and inspiring more people to visit, which in turn will promote Edmonton's economic prosperity. The key deliverables of Explore Edmonton's 2021 Business Plan include:

- Improving the targeted marketing sales approach by focusing on event retention and adjusting events and audiences targets. This work will align with the Government of Alberta's COVID-19 public health direction and respond to the changing visitor economy landscape.
- Implementing new tools, programs, and services in support of marketing and sales activities.
- Creating a 10-year destination development master plan for Edmonton to develop and grow experiences and events in collaboration with stakeholders and with a focus on long-term sustainability (economic, environmental, and social).
- Implementing systems and processes to build confidence that Explore Edmonton's venues, offices and spaces are among the safest places to work and attend events.

Explore Edmonton will be organized into three operational functions. A venue management department will continue to operate the Edmonton Convention Centre and the Edmonton EXPO Centre. A second department will promote Edmonton's visitor economy, including hotels, attractions, entertainment, food services and others who serve visitors. The third department is shared services, which provides internal support to the other two departments.

### COVID-19 Impacts

Venue management and promotion of the visitor economy have both been hit hard by the COVID-19 pandemic. The Edmonton Convention Centre and the Edmonton EXPO Centre remain closed and are not generating significant revenue. Leisure and business travel has also been severely restricted. Explore Edmonton's hotelier partners are not collecting the surcharge on hotel rooms to fund promotion of the visitor economy under the Edmonton Destination Marketing Hotels program. Current projections from other orders of government and industry members are that recovery from the pandemic will not happen until at least 2024.

In previous years, the cost of operating these venues was approximately equal to revenues from event bookings and the organization was able to maintain a building maintenance reserve fund. When businesses and consumers begin travelling again following the pandemic, promotion of the visitor economy would be funded using proceeds from the Edmonton Destination Marketing Hotels program; however, there may be a year or more of lag time between the collection of these funds and remittance to Explore Edmonton. The remainder of the visitor economy operation of approximately \$11.7 million annually would be funded from the City of Edmonton's tax levy.

In the meantime, Explore Edmonton has projected its operating costs and revenues for the years 2021 through 2024 (Attachment 1). These projections are based on the following assumptions:

- The transition of Startup Edmonton, the Edmonton Research Park, and Biotechnology Business Development Centre to other agencies will be complete by year end 2020.
- Venue booking revenues will be 50 percent in the first half of 2021 and 75 percent for the remainder of 2021.
- The fixed costs of operating the venues will remain consistent.
- Reduced visitors, particularly long-haul visitors, given COVID-19 pandemic.
- Focus will be on regional/national visitors until borders reopen and scheduled flights return.
- Explore Edmonton's building maintenance reserve fund will be entirely depleted by year end 2020 and not replenished until 2022.
- Expenses are adjusted for inflation as well as additional safety/PPE requirements and have been right sized to the mandate of Explore Edmonton.

- Other funding sources are minimal in 2021.

### Funding Model Considerations

Given the financial projections, Explore Edmonton will be seeking City financial support for its activities in the amounts of:

- \$21.6 million in 2021
- \$18.8 million in 2022
- \$14.5 million in 2023
- \$11.7 million in 2024 and beyond

For 2021, approximately half of the requested funds would be for regional promotion of the visitor economy, meeting, event, and conference bookings in 2021 and beyond, and business requirements in the shared services and visitor economy groups. The other half would be to offset reductions in funding from partners and venue fixed costs not covered by revenues.

The main reason for these funding requests is the decline in revenues from facility bookings and the decline in the destination marketing revenues from Edmonton Destination Marketing Hotels, which are projected to increase over the next three years. The funding model presumes that Explore Edmonton will continue its investment in the visitor economy in 2021 to 2023. In the early stages of the pandemic recovery, these activities will focus on promoting visitation in the local, regional and national markets. As travel restrictions are eased, Explore Edmonton will refocus its efforts on international travellers. In 2024, Explore Edmonton projects that its revenues will return to close to pre-pandemic levels, resulting in a projected need for a \$11.7 million financial contribution from the City of Edmonton in 2024. Barring a further change in mandate, or some other changes in revenue availability, Explore Edmonton anticipates requiring ongoing City funding of \$11.7 million annually following 2024.

Any approved funding for Explore Edmonton, will be conditional on the completion of a formal funding agreement, which would provide an opportunity to clarify roles and responsibilities. Explore Edmonton and Administration are working on the terms of this agreement that will include a series of performance measures and enhanced reporting on the maintenance and condition of the two facilities, and be in alignment with the City's Economic and Place Brand Strategies.

### Feasibility of Integrating K-Days and Farmfair International

Administration worked with Explore Edmonton and Northlands to examine the feasibility of integrating K-Days and Farmfair International into Explore Edmonton's operations. These discussions and analysis reached the following conclusions.

- Integration of these events would be consistent with Explore Edmonton's mandate to promote the visitor economy.

- Explore Edmonton has the organizational capacity and the physical space to integrate these events into its operations.
- Integration would make more efficient use of existing resources. Currently, Northlands incurs significant overhead to stage these two events including office space rental and other costs, costs for seasonal staff and senior leadership, and providing corporate services such as human resources, finance and information technology. If integrated, these events could be operated out of existing space at the Edmonton EXPO Centre and supported with Explore Edmonton's leadership structure and corporate services. The estimated cost efficiency in adopting this model is approximately \$2.46 million.
- Integration of these events would support their long-term sustainability. If Explore Edmonton were to integrate both of these events into its operations, it is projected that together they would operate at a small deficit of approximately \$60,000, assuming that the Government of Alberta would continue to offer an annual grant of \$1.7 million. If only K-Days were held, it could operate at a small surplus of approximately \$310,000.

Based on the analysis completed, integration of these events is operationally and financially feasible. The main outstanding question is to determine the terms of the transition. Northlands and Explore Edmonton have considered a number of options including a transfer of assets and staff from Northlands to Explore Edmonton and a strategic alliance between Northlands and Explore Edmonton. If City Council wishes to move forward with integrating these two events, it should direct Administration to work with the two parties on a workable integration model.

### **Budget/Financial Implications**

#### 2021 and 2022 Funding Requirements

In the long-term, assuming a return to pre-pandemic conditions over the next three years, the funding model for Explore Edmonton, to achieve its revised mandate, would see an annual City contribution of approximately \$11.7 million. Over the next three years of pandemic recovery, Explore Edmonton would require tax levy support of approximately:

- \$21.6 million in 2021
- \$18.8 million in 2022
- \$14.5 million in 2023
- \$11.7 million in 2024 and beyond

Ongoing funding for Explore Edmonton of \$8.5 million is included in the City's budget. On May 11, 2020, City Council approved an ongoing reduction of the funding for Explore Edmonton by \$11 million. Of this \$11 million, \$5 million was held within Administration to fund an innovation entity, \$1.05 million was redirected within Administration and the remaining \$4.95 million continues to be held. This base funding

plus reallocation of \$4.95 million in unallocated funds would provide for \$13.4 million in funding for 2021, 2022 and 2023, leaving a funding shortfall of \$8.2 million, \$5.4 million, and \$1.1 million in each of those years, respectively. Discussion of funding for Explore Edmonton for 2021 and 2022 will be included for City Council's consideration during the 2021 COVID budget discussion on December 7.

### Quarter 4 2020 Funding

On May 11, 2020, City Council approved one-time funding of \$6.295 million to fund start-up costs for the establishment of a new innovation entity and a business COVID-19 relief program. From this funding up to \$1 million was to be used as start up and operating costs for the new innovation entity in 2020 and the remaining \$5.295 million was used to provide funding to Edmonton businesses as part of the City's COVID-19 response.

With the change in mandate, Administration anticipated that Explore Edmonton would cease to support Startup Edmonton and TEC Edmonton as of the end of September 2020. As the innovation entity is still in its early days as a corporation, Explore Edmonton continued to provide support for Start Up Edmonton and the agreement with TEC Edmonton is yet to be transferred. Given the funding for these items was removed earlier in the year, this report recommends entering a Quarter 4 grant agreement to fund Explore Edmonton expenses of \$847,478 related to Startup Edmonton and TEC Edmonton on a one-time basis. Terms of the grant agreement are included in Attachment 3.

Executive Committee approval is needed to authorize the City Manager to sign an agreement, as the dollar value exceeds delegated authorities for the monies owing for quarter 4 of 2020.

### **Public Engagement**

Public engagement was not conducted for this report.

### **Corporate Outcomes and Performance Management**

<b>Corporate Outcome:</b> Edmonton has a globally competitive and entrepreneurial business climate.			
Outcome	Measure	Result	Target
Edmonton has a globally competitive and entrepreneurial business climate.	Edmonton Region Economic Diversity Index (Source: Conference Board of Canada)	2019: 0.90 (2019)	Ongoing: 0.90

## Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
<b>If recommendation is approved</b>						
Financial	The grant funds provided to Explore Edmonton for TEC Edmonton and Startup Edmonton are insufficient to cover expenses requiring additional funds	2 - Unlikely	1 - Minor	2 - Low	Explore Edmonton to work with TEC Edmonton and Startup Edmonton to ensure there are no significant variances in Q4 expenses for the organizations	
<b>If recommendation is not approved</b>						
Customers / Citizens	Citizens are unable to access programs and other supports to get their businesses and ideas started hindering innovation and entrepreneurship	3 - Possible	1 - Minor	3 - Low	Explore Edmonton to work with TEC Edmonton's and Startup Edmonton's customers to find alternative programs and resources during the transition period	

## Attachments

1. Explore Edmonton Net Operating Requirement 2021 to 2024
2. Explore Edmonton Revenues - Impact of COVID-19
3. Quarter 4 2020 Grant Funding Agreement - Term Sheet

## Others Reviewing this Report

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- B. Andriachuk, City Solicitor